
Richard C. Koo
Chief Economist
Nomura Research Institute
Tokyo
October 2009
Exhibit 1. US House Prices Are Tracing the Japanese Experience

US: 10 Cities Composite Home Price Index

Japan: Tokyo Area Condo Price (per m², 5 months moving average)

Japan: Osaka Area Condo Price (per m², 5 months moving average)

Exhibit 2. Japan Is no Stranger to De-leveraging

(% Nominal GDP, 4Q Moving Average) (\%)

-4 -2 0 2 4 6 8 10

-10 -8 -6 -4 -2 0 2 4 6 8 10

Sources: Bank of Japan, Cabinet Office, Japan

Borrowings from Financial Institutions (left scale)
Funds raised in Securities Markets (left scale)
CD 3M rate (right scale)

Debt Repayment under Zero Interest Rates
Exhibit 3. Japan’s GDP Stayed *Above* the Bubble Peak in spite of 87% Decline in Real Estate Values

Sources: Cabinet Office, Japan Real Estate Institute
Exhibit 4. Large Deficit Does Not Mean Higher Interest Rates in a Balance Sheet Recession

Japanese Government Debt as Percentage of GDP (left scale)
Yields on 10-year JGB (right scale)

Sources: Cabinet Office, Japan, Japan Bond Trading Co., Japan Securities Dealers Association

* Household savings plus corporate debt repayment
Exhibit 5. Two Capital Injections Ended the Credit Crunch in Japan

Bankers' Willingness to Lend as Seen by the Borrowers, and the Actual Credit Extended by the Banks

('Accommodative' minus 'Restrictive', %points) (Y/Y%)

Accommodative

Restrictive

Credit Crunch

1st Capital Injection
(¥1.8 tril.)

2nd Capital Injection
(¥7.5 tril.)

"Takenaka Shock"
(rushed NPL disposal)

Credit Extended by the Banks
(right scale)

Bubble Burst
Miyazawa Proposal

Large Enterprises
(Left Scale)

Global Financial
Crisis

Small Enterprises
(Left Scale)

(Shaded areas indicate periods of BOJ monetary tightening)
Sources: "Tankan", "Loans and Discounts Outstanding by Sector", BOJ
Exhibit 6. The Bulk of Japan's NPLs Was Written Off before 2000

Total NPL losses
¥100 tril. or $1 tril.
@ ¥100 = $1

Equivalent to
$2.7 tril.
in the US

IMF Global
Financial
Stability Report
(Apr. 2009)
losses for US
financials
$2.7 tril.

1: Includes commercial banks only; investment banks, insurance companies and other financial institutions are NOT included.
2: Includes all financial institutions including hedge funds.
Source: Financial Services Agency, Japan
Exhibit 7. Contrast Between Yin and Yang Phases of a Cycle

<table>
<thead>
<tr>
<th>Yang</th>
<th>Yin</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Phenomenon</td>
<td>Textbook economy</td>
</tr>
<tr>
<td>2) Fundamental driver</td>
<td>Adam Smith's &quot;invisible hand&quot;</td>
</tr>
<tr>
<td>3) Corporate financial condition</td>
<td>Assets &gt; Liabilities</td>
</tr>
<tr>
<td>4) Behavioral principle</td>
<td>Profit maximization</td>
</tr>
<tr>
<td>5) Outcome</td>
<td>Greatest good for greatest number</td>
</tr>
<tr>
<td>6) Monetary policy</td>
<td>Effective</td>
</tr>
<tr>
<td>7) Fiscal policy</td>
<td>Counterproductive (crowding-out)</td>
</tr>
<tr>
<td>8) Prices</td>
<td>Inflation</td>
</tr>
<tr>
<td>9) Interest rates</td>
<td>Normal</td>
</tr>
<tr>
<td>10) Savings</td>
<td>Virtue</td>
</tr>
<tr>
<td>11) Remedy for Banking Crisis</td>
<td>a) Localized</td>
</tr>
<tr>
<td></td>
<td>a) Localized</td>
</tr>
<tr>
<td></td>
<td>b) Systemic</td>
</tr>
<tr>
<td></td>
<td>b) Systemic</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>